

Kentucky Agricultural Finance Corporation

Minutes of the November 7, 2008 Meeting

The meeting of the Kentucky Agricultural Finance Corporation (KAFC) Board of Directors was held Friday, November 7, 2008 at the Transportation Office Building, Room C109, in Frankfort, Kentucky. Bruce Harper, designee for Commissioner Richie Farmer, presiding, called the meeting to order at 10:10 a.m. EST.

Notification of the Press

Mr. Harper received verification that the media had been notified regarding the KAFC monthly meeting.

Roll Call

The Secretary called roll.

Members Present

Bruce Harper (designee for Commissioner Farmer), Bob Gaslin, Wayne Hunt, Larry Jagers, Doug Lawson, Tom Midkiff (designee for Secretary Miller), Bob Proffitt, James Reams, Annette Crawford-Walters

Members Absent

Charles Miller, Frank Penn

Others Present

Staff – Angela Blank, Diane Fleming, Cyndi Hall, Sandra Gardner, Tim Hughes, Bill McCloskey, Joel Neaveill, Roger Thomas

Guests – Millard Long, KHI Foods; Mike Calebs, beginning farmer; Christina Gordley, Governor's Office of Policy Management

Welcome / Introduction of Guests

Mr. Harper thanked everyone for taking time out of their busy schedules to attend this important meeting.

Review and Approval of Minutes

Wayne Hunt moved to approve the minutes of the September 5, 2008 meeting, as presented, of the KAFC Board of Directors; Larry Jagers seconded the motion.

The motion passed without dissent.

Reports

Executive Director's Report

Mr. Harper called on Roger Thomas for the Executive Director's Report.

Mr. Thomas thanked everyone for being present at the meeting and welcomed guests. He also noted that the KAFC Marketing Committee met prior to this regular meeting of the Board.

Mr. Thomas briefed the Board on the Sunbelt Expo, which occurred in mid-October in Moultrie, GA. He noted that Kentucky was the spotlight state and provided highlights of the Expo's events and the role that Kentucky played.

Mr. Thomas noted that a second Farmers' Market was held on the capitol grounds in October, hosted by the First Lady and the Kentucky Farmers' Market Association.

Mr. Thomas announced that on Monday, November 3, Secretary Schafer (USDA) declared all 120 counties in Kentucky disaster counties.

Mr. Thomas commended the staff that works with KAFC and gave special recognition to Bill McCloskey, Angela Blank, Sandy Gardner, and Cyndi Hall, noting that Cyndi will be taking on administrative duties previously held by Tracey Mulder.

Mr. Thomas brought the Board's attention to the action memo titled "Lowering Loan Limit..." (On-file with the Board Secretary). He explained the recommendation in the memo and why it is being suggested, noting that the same should be done for the Large Animal Veterinary Loan Program if approved by the Agricultural Development Board.

It was suggested that the effective date of the lowered limit be December 20, after the December 19 deadline for applications to give lenders and applicants time to adjust.

Annette Crawford Walters suggested making it immediate, except for those already in process. There was a discussion of this and why a specific date may be necessary, so as to not cause confusion.

Mr. Hunt moved to accept staff's recommendation for lowering the loan limit for the Agricultural Infrastructure Loan Program (AILP) and the new Large Animal Veterinary Loan Program; Mr. Jagers seconded the motion. The Board Secretary clarified that December 19, 2008 is the last date for the \$250,000 limit on the AILP and that applications received December 20, 2008 or later will fall under the lower \$100,000 limit.
The motion passed without dissent.

Mr. Thomas invited the Board to attend the Agricultural Development Board's planning meeting on November 20-21 in Bowling Green, noting there would be a presentation of the UK Study on the Agricultural Development Fund Investments.

Mr. Thomas announced that the 2009 KADB/KAFC Annual Meeting would take place January 15, 2009 in Lexington with a joint meeting of both Boards following on January 16. He also noted that members of both Boards would be asked to participate in a Board panel discussion during the annual meeting.

Financial Services Director's Report

Mr. Harper called on Bill McCloskey to give the Financial Services Director's Report.

Mr. McCloskey reviewed the financial position report (below) of KAFC, which reflected activity since the last meeting.

KAFC Statement of Financial Position	
ASSETS:	
Interest Earned from Loans	\$917,381.84
Interest Earned from State Investment Commission	950,947.63
Interest Fund (2802 Acct.)	\$1,868,329.27
Principal/Loan Fund (2803 Acct.)	5,156,931.09
Loan Funds Disbursed	17,843,068.91
Funds Held by State & not transferred to KAFC	3,000,000.00
Total Assets:	\$27,868,329.27

Mr. McCloskey reported on a trip to Vermont for the National Association of State Agricultural Finance Programs, which occurred in early October.

Mr. McCloskey reported that he and Mr. Thomas provided an Annual Report on KAFC's programs to the Tobacco Settlement Agreement Fund Oversight Committee on October 1.

Mr. McCloskey noted that a copy of the KAFC application to the Agricultural Development Board was included in the update folder, provided at the meeting.

Mr. McCloskey yielded the floor to Joel Neaveill, GOAP Chief of Staff, for an update on discussions with the State Auditor's office in performing an annual audit of KAFC and its programs.

Mr. McCloskey explained a memo mailed to each member, regarding Board Committee assignments. He yielded the floor to Mr. Hunt for a report from the KAFC Marketing Committee. Mr. Hunt noted that there is more than one way to look at your marketing audience. Mr. Hunt updated the Board on promotional materials available for KAFC programs, and announced that the 2009 Annual Meeting will be the first to include KAFC. He stated that we want to be viewed as a partner with the banks, not a lending institution.

Mr. McCloskey drew the Boards attention to two action memos.

Mr. McCloskey reviewed the memo related to Paul & Judith Wilson (AILP, AF07-0100). Staff recommends approval to release 4 acres to be deeded to son, bringing the CLTV for their loan to 20.53%.

Ms. Walters moved to release 4 acres, based on staff's recommendation; Doug Lawson seconded the motion. The motion passed without dissent.

Staff also requested that the Board allow the Executive Director to make adjustments in collateral issues in the future, such that the new CLTV for AILP loans is no worse than 85% and no worse than 95% for BFLP loans.

Ms. Walters moved that the Executive Director be allowed to make these kinds of adjustments, as requested by staff; Mr. Jagers seconded the motion. The motion passed without dissent.

Mr. McCloskey reviewed the memo related to Off-farm Income Guideline. There was a discussion of the pros and cons of changing how off farm income is calculated. Staff recommended changing the language to read "Applicant's total household off-farm income is less than \$100,000 annually, as evidenced by the past two year's tax returns."

Mr. McCloskey yielded the floor to an applicant requesting the guideline change who commented on why he requested the change.

Mr. Hunt noted that an individual with 3-year average return might be better. Mr. Midkiff concurred and stated that maybe we want to change the guidelines to 3-year average instead of two.

Ms. Walters moved to revise the off-farm income language to read "Applicant's personal off-farm income is less than \$75,000 annually, or total household off-farm income is less than \$100,000 annually, as evidence by a minimum of the past two year's tax returns or maximum of three." Mr. Hunt seconded the motion. The motion passed without dissent.

New Business

The following loan applications were received between August 23 and October 17, 2008. Mr. McCloskey presented each.

Agricultural Processing Loan Program

AF08-0088 Siemer Milling Company – Applicant requested \$6 million for the expansion of their Pembroke mill's flour production capacity by about 45% or 250 tons per day. There was discussion of this company and its impact on the area economy.

Mr. Hunt moved to approve AF08-088 for \$3 million, pending fund availability; Ms. Walters seconded the motion. The motion passed without dissent.

AF08-0090 Katelyn's Honey Inc. (KHI Foods) – Pending; Mr. McCloskey yielded the floor to Millard Long for a presentation of the project and current products. A folder with additional information was distributed to the Board (on file with the Board Secretary).

Agricultural Infrastructure Loan Program

AF08-0079 Mattingly, William K. – Applicants requested \$87,500 for construction of housing and feeding barn for dairy operation in Marion County. Central Kentucky ACA (Lebanon) is the participating lender. Staff recommended approval.

James Reams moved to approve AF08-0079, based on staff's recommendation, pending fund availability; Mr. Jaggars seconded the motion. The motion passed without dissent.

AF08-0080 Petersons Partnership – Applicant requested \$200,000 for construction of a 220,000 bushel grain bin in Marion County. Central Kentucky ACA (Lebanon) is the participating lender. Staff recommended approval, conditional on appraisal with CLTV of no worse than 90%.

Ms. Walters moved to approve AF08-0080, based on staff's recommendation, pending fund availability; Bob Gaslin seconded the motion. The motion passed without dissent.

AF08-0081 Ogle, Steve & Ronna – Applicants requested \$30,000 for construction of a tobacco barn in Hancock County. South Central Bank of Hardin County is the participating lender. *This loan was approved by staff (October 22, 2008), based upon loan size and credit score per Agricultural Infrastructure Loan Program policy adopted June 24, 2005.*

AF08-0082 Lawson, Michael & Penny – Applicants requested \$8,000 for construction of a 32' x 60' tobacco barn in Marion County. Central Kentucky ACA (Lebanon) is the participating lender. Staff recommended approval.

Mr. Hunt moved to approve AF08-0082, based upon staff's recommendation, pending fund availability; Mr. Gaslin seconded the motion. The motion passed without dissent.

AF08-0086 Reed, Thomas – Applicant requested \$3,500 for the construction of a hay barn to increase storage capacity in Nelson County. Farm Credit Services of Mid-America (Glasgow) is the participating lender. Staff recommended approval.

Ms. Walters moved to approve AF08-0086, based upon staff's recommendation, pending fund availability; Mr. Jaggars seconded the motion. The motion passed without dissent.

AF08-0089 Chandler, Lloyd & Paulette – Applicants requested \$62,500 for the construction of a hay and straw storage facility in Barren County. South Central Bank (Franklin) is the participating lender. Staff recommended approval, noting that the applicant will be providing cash match for the financing and the lender is only servicing the loan at .75%.

Mr. Hunt moved to approve AF08-0089, based upon staff's recommendation, pending fund availability; Ms. Walters seconded the motion. The motion passed without dissent.

AF08-0091 Jarvis, Terry & Barbara – Applicants requested \$250,000 for construction of two poultry layer houses for Cobb in Clinton County. Farm Credit Services of Mid-America (Somerset) is the participating lender. Staff recommended approval.

Mr. Gaslin moved to approve AF08-0091, based upon staff's recommendation, pending fund availability; Mr. Reams seconded the motion. The motion passed without dissent.

AF08-0092 Combs, John A. – pending

Beginning Farmer Loan Program

AF08-0083 Rogers, Clayton & Sara – Applicant requested \$15,000 for the purchase of 100 Holstein heifers in Nelson County. Farm Credit Services of Mid-America (Elizabethtown) is the participating lender. Staff recommended approval.

Mr. Jagers moved to approve AF08-0083, based upon staff's recommendation, pending fund availability; Bob Proffitt seconded the motion. The motion passed without dissent.

AF08-0084 Wilson, Nathan – Applicant requested \$250,000 for the construction of two wean to finish hog barns on 4-acres deeded from parents in Fulton County. Jackson ACA (Hickman) is the participating lender. Staff recommended approval conditional on obtaining 1) proof of conditional use permit from Division of Water, and 2) approval on a nutrient management plan by NRCS.

Ms. Walters moved to approve AF08-0084, based upon staff's recommendation, pending fund availability; Mr. Hunt seconded the motion. The motion passed without dissent.

AF08-0085 Calebs, G. Michael – Applicant requested \$109,497 for the purchase of a 160-acre farm in Laurel County. First National Bank & Trust is the participating lender. Staff recommended denial, based on the current BFLP guidelines.

Mr. Lawson moved to approve AF08-0085, based upon changes to guidelines made earlier in the meeting, pending fund availability; Mr. Gaslin seconded the motion. The motion passed without dissent.

AF08-0087 Young, Greg – Applicant requested \$37,500 for the purchase a 98-acre farm from his father in Marion County. Central Kentucky ACA (Lebanon) is the participating lender. Staff recommended.

Ms. Walters moved to approve AF08-0087, based upon staff's recommendation, pending fund availability; Mr. Hunt seconded the motion. The motion passed without dissent.

AF08-0093 Burchett, Brandon O. – pending

Old Business

AF08-0074 Davis, Ronald & Heather – Applicants requested \$237,500 for the construction of a wean-to-finish hog barn in Marshall County. Heritage Bank (Murray) is the participating lender. Staff recommended approval.

Mr. Hunt moved to approve AF08-0074, based on staff's recommendation, pending fund availability; Mr. Gaslin seconded the motion. Mr. Lawson abstained, due to conflict of interest. The motion passed without dissent.

AF08-0064 McCubbins, Henry Todd – Applicant requested an additional \$27,500 to be added to his existing loan, approved 9/5/2008. Staff recommended approval.

Ms. Reams moved to approve the additional \$27,500, bringing the loan total to \$77,500, pending fund availability; Mr. Reams seconded the motion. The motion passed without dissent.

AF08-0067 Stinson, Lonnie & Paula – The original approval on 9/5/2008 for this loan was conditional on an FSA guarantee; however, due to the CLTV of 81% the bank is no longer requiring an FSA guarantee. Staff recommends approval of this loan without the FSA guarantee.

Mr. Reams moved to approve AF08-0067 without FSA guarantee, based upon staff's recommendation, pending fund availability; Mr. Gaslin seconded the motion. The motion passed without dissent.

AF08-0059 Palmer, Michael & Stacie – The original approval on 9/5/2008 for this loan was conditional on both FSA subordinating existing debt to new debt, as well as provide a guarantee. Since FSA cannot do both, staff recommended approval of the loan without requiring FSA to subordinate.

Ms. Walters moved to approve AF08-0059 without requiring FSA to subordinate, pending fund availability; Mr. Hunt seconded the motion. The motion passed without dissent.

AF08-0047 Grasslands Dairy Cattle LLC – Update; Mr. McCloskey reviewed the memo and information provided to the members in their mailing. The applicant requested \$1,000,000 to expand their heifer contracting business in Monroe County. Staff recommends to approve a \$500,000 direct loan conditional on 1) heifer price of \$1,835 or equivalent adjustment; 2) total financing of project is documented; 3) value of livestock and real estate (minimum value of \$500,000) appraise at no worse than 75%.

Mr. McCloskey yielded the floor to Tim Hughes to discuss the current Coordinated Value-added Loan Program (CVLP) guidelines, which state that only 25% of a project would be funded. The Board discussed changing this percentage and then compared the guidelines to the Agricultural Processing Loan Program's (APLP) guidelines.

Ms. Walters moved to amend the CVLP guidelines to be more in line APLP's guidelines to allow terms of the loan to be based on the specific project, as determined by staff and the Board; Mr. Hunt seconded the motion. The motion passed without dissent.

Mr. Jagers moved to approve AF08-0047 with the revised guidelines for \$500,000, pending fund availability; Mr. Reams seconded the motion. The motion passed without dissent.

AF06-0061 Burton Livestock LLC – refinancing; Mr. McCloskey reviewed the memo and additional information for this project that was provided at the meeting. The staff recommended a meeting between the Burton's loan officer, the Burton's, their CPA, and staff to review an accurate cash flow statement before board decides on refinancing.

Mr. Lawson moved to table any action until the above meeting occurred; Mr. Hunt seconded the motion. The motion passed without dissent.

AF07-0007 Lovell, Nathan & Shelly – Mr. McCloskey reviewed and discussed a memo, regarding this request from Farm Credit Services – Russellville to subordinate on this loan. There was no staff recommendation. The consensus of the Board was that they would not subordinate on add-on collateral for a home loan.

AF05-0021 Gibson, Brady & Anne – Mr. McCloskey reviewed a memo related to a Request from Farm Credit Services – Dry Ridge to subordinate on \$290,620.32 Farm Credit debt. Staff recommended approval. **Ms. Walters moved to approve this request; Mr. Lawson seconded the motion. The motion passed without dissent.**

Closing Remarks

The next meeting of the KAFC Board will be Friday, January 16, 2009 in Lexington, KY as part of a joint meeting with the Kentucky Agricultural Development Board. The joint meeting will begin at 9:00 a.m. The regular business meeting of KAFC will begin at 10:00 a.m. EST.

There will also be a joint annual meeting sponsored by KAFC and KADB on Thursday, January 15, 2009 at the Lexington Center.

The meeting adjourned at 1:40 p.m. EST.

APPROVED: 1/16/09

PRESIDING: Tim Hughes

SECRETARY: Stacy Walters